

Refuse Rates Administrator's Report and Proposal Summary



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller, Office of the Refuse
Rates Administrator

June 12, 2023

Refuse Rates Administrator's Report

Refuse Rates Administrator's Proposal

- Summary of Rate Proposal
- Detail of Proposed Items with Rate Impacts
 - Impound Account Detail
 - Program Enhancements
 - Capital Expenditures
 - Non-Program Related Adjustments
 - Business/Economic Factors
- Detail of Proposed Items without Rate Impacts

Refuse Rates Administrator's Report

Refuse Rates Administrator's Rate Process Update

4

- Refuse Rate Process began on January 27, 2023 when the Refuse Rates Administrator publicly issued its Rate Change Schedules.
- Rate Change Request schedules from Recology were received March 7th.
- Since receiving the submission, the Refuse Rates Administrator has been conducting analyses and building a public record:
 - Analyses
 - Rate Comparisons
 - Profit Margin Comparisons
 - Rate Change Submission Analyses
 - Public Record Building
 - Two Public Workshops
 - Four Commission Hearings
 - Two Refuse Rates Administrator Hearings
 - One Refuse Rate Board Hearing
 - An additional 3-4 Rate Board Hearings for a total of 12-13 opportunities for oral public input.
 - Interrogatory Process
- Since March 7th, Written Objections and protests continue to be collected
- Prop 218 notices were sent June 1, 2023 to all residential ratepayers

COMPLETED & ONGOING



Public Website

sf.gov/refuserates explains the rate-setting process and lists all past and upcoming public meetings.



Email Campaigns

Call for public input and list of public meetings sent to 1,700+ recipients, including City departments, Board of Supervisors, local press, and subscribers of Controller's Office updates.



Social Media

Public meeting notices posted on Twitter to remind public of upcoming opportunities for comment. Related City agencies and local press are asked to help share.

Public Records Automation



Alert created in NextRequest (departmental records request software) that directs users to the Refuse Rates Administration website if select keywords are part of their request. We have 1,670+ instances of users being directed to the Refuse Rates website.

Prop 218 Mailer to Residential Ratepayers



Prop 218 notices were mailed starting on June 1, 2023 to all residential ratepayers in San Francisco. The notices included multilingual information with both Recology and the Refuse Rates Administrator's proposals for rates in 2024 and 2025.



Neighborhood Papers

Targeted outreach to local news outlets, specifically neighborhood papers (like Potrero Hill and Richmond Review/Sunset Beacon).



Neighborhood Groups & Districts

Targeted outreach to registered neighborhood organizations in San Francisco with reminders of opportunity to submit Written Objections and all upcoming public meetings. Board Members also asked to help inform constituents.

UPCOMING



Press Releases

Encourage reporters to integrate public meeting reminders and opportunity for the public to submit Written Objections into coverage on Recology and other related topics.



Additional Email Campaigns

Additional email campaigns to encourage public comment and participation in rate-setting process.

Written Comment or Objections Received Through Online Form

- 55 Written Comments or Objections have been submitted. 45 are related to residential rates, 1 is commercial, & 9 related to both.
- All comments object to any increase in rates or in favor of the Refuse Rate Administrator proposal.
 - Recology should not be trusted to receive increase in ratepayer funds after corruption scandal
 - Recology received 8.86% COLA in January 2023 already, should not increase rates again.
 - Support for the Refuse Rates Administrator's lower proposal.

Hearing and Public Workshop Comments

- Request for more information on impound accounts
- Concerned about nexus and proportionality and use of impound account funds from rates.
- Supports proposal that would minimize contamination and maximize diversion.
- Want to see reasonable and fair rates and good value or ratepayers. Supports the profit margin and would expect some increase in rates.

Prop 218 Protests

- Protest letters are beginning to arrive. Hearing on Prop 218 protests will take place during the Refuse Rate Board Hearing on July 24th.

Streets and Sanitation Commission

First Hearing

- Clarifying questions on how rates are set and drivers of tipping fee increase.
- Commissioner recommended additional outreach on rate-setting process.

Second Hearing

- Asked for comparisons of Recology's ESOP structure with other types of solid waste company structures.
- Since rates are based on projections, ensure true-up with actuals.

Commission on the Environment

First Hearing

- Questions focused on fair profit, Recology's incentive to manage costs, how tonnage reporting is validated, how impound account is set, how uses of Zero Waste Incentive funds are approved.
- One commissioner supported changing Zero Waste Incentive metric from tonnage to % recovered.

Second Hearing

- **Contamination Enhancement:** Both concerns and support expressed for potential camera technology. Concerns focused on privacy, efficacy, lack of tests, and potential litigation.
- **Zero Waste Incentive:** One commissioner supported incentives of various forms while expressing skepticism on the efficacy of outreach. Another commissioner noted that the current ZWI structure is not correlated with diversion. There was general support for an incentive structure.
- **Compost contamination:** General concern for the level of contamination (24% found not readily-compostable).
- **Weekend Cleanup:** Supported including recycling and composting bins and re-use component for neighborhood cleanup.

Commission on Environment

Second Hearing Continued

- **Commission passed a resolution:** Encourages an adjustment that helps 2030 Zero Waste and climate related goals. Reduce contamination in all three streams through:
 - Testing of truck cameras
 - Reinstatement and analysis of contamination charges
 - Pre-processing of organics testing and evaluation of new technology
 - Outreach to every resident at least every two years
 - Test and evaluate trash processing
 - Establish zero waste incentive system with annual recovery targets
 - Support continued funding of impound account and to secure additional funding sources as needed to meet Environment Department's proposed impound budget.

Public Record: Interrogatory Process

10

- The RRA has issued a series of requests to Recology, based on analysis of Recology's Rate Change Request.
- These requests and Recology's responses are posted publicly on a weekly basis.
- There are three categories of requests:
 - ***Schedule Requests***: These requests track the status of completion and validation of the schedules issued by the RRA
 - ***Exhibits***: Some parts of Recology's submission require additional detail or explanation that is not captured in the schedules.
 - ***Questions***: These are generally clarification questions or requests for answers/justifications for certain assumptions made in Recology's submission.

As of 6/6/23	Requests	Complete Responses
Schedule Requests	17	12
Exhibits	40	39
Questions	156	145

Remaining Rate Process

11

Date	Event	Description
June 12	Refuse Rate Board Hearing	Hear Refuse Rates Administrator Rate Proposal Summary
Week of June 18th	RRA Proposed Rate Order Issued	Refuse Rates Administrator's Written Proposed Rate Order Issued
June 26	Refuse Rate Board Hearing	Hear Refuse Rates Administrator Rate Proposed Rate Order
July 15	Prop F Written Objection Period Closes	Cutoff date for Prop F Written Objections
July 24	Refuse Rate Board Hearing	Hear Proposed Rate Order, Prop F Written Objections, and Prop 218 Protests
July 28	Refuse Rate Board Hearing	If needed

Refuse Rate Administrator's Proposal
Summary of Rate Proposals

Rate Change Proposals

13

Rate Change	Rate Year 2024		Rate Year 2025	
	Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Collections Rate				
Annual % Change Proposed	3.90%	0.00%	2.17%	3.92%
Cumulative % Change from Current Year	3.90%	0.00%	6.15%	3.92%
Tipping Fee				
Annual % Change Proposed	16.36%	9.75%	0.08%	3.09%
Cumulative % Change from Current Year	16.36%	9.75%	16.45%	13.14%

- Tipping Fee increases are already included in the collection rate changes on the top two lines. It also applies to self-haul for customers who want to drop off at the Transfer Station.
- Recology's Major Changes
 - Contamination Enhancement, which includes an assumption of \$5M in Contamination Fees
 - Sustainable Crushing closure in RY2023
- Refuse Rate Administrator's Major Changes to Recology's Proposal
 - Removal of Contamination Enhancement
 - Pension Cost Cap
 - Suspending Zero Waste Incentive Account For this Rate Cycle.

Residential Rates (1-5 Units)

Description of Monthly Charge	Rate Year 2023	Rate Year 2024		Rate Year 2025	
		Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Rates for 1-5 Unit Residential Buildings					
Base Charge for Service					
Per dwelling unit	\$17.55	\$18.23	\$17.55	\$18.63	\$18.24
Trash Volume Charge for Weekly Collection					
16-gallon bin	\$7.33	\$7.62	\$7.33	\$7.78	\$7.62
20-gallon bin (current customers only)	\$7.33	\$7.62	\$7.33	\$7.78	\$7.62
Premium for service above 32-gallons per dwelling unit	\$11.70	\$12.16	\$11.70	\$12.42	\$12.16
Recycling or Composting Volume Charge for Weekly Collection					
32-gallon bin	\$7.33	\$7.62	\$7.33	\$7.78	\$7.62

- These are line items ratepayers will see on the rate schedule.
- Minimum level of service includes a 16-gallon trash bin, 32-gallon recycling and compost bins.
- Default Service is 16-gallon trash, 64-gallon recycling, and 32-gallon compost.

Residential Rates (1-5 Units)

Example of Costs to Rate Payer	Rate Year 2023	Rate Year 2024		Rate Year 2025	
Description of Monthly Charge for Weekly Service	Current Rates	Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
1-Unit Default Service					
Total Base Charge	\$17.55	\$18.23	\$17.55	\$18.63	\$18.24
16 Gallon Trash	\$7.33	\$7.62	\$7.33	\$7.78	\$7.62
64 Gallon Recycling	\$14.66	\$15.23	\$14.66	\$15.56	\$15.23
32 Gallon Compost	\$7.33	\$7.62	\$7.33	\$7.78	\$7.62
Total Account Charge	\$46.87	\$48.70	\$46.87	\$49.75	\$48.71
Typical Level of Service (3-Units)					
Total Base Charge	\$52.65	\$54.70	\$52.65	\$55.89	\$54.71
32 Gallon Trash	\$14.66	\$15.23	\$14.66	\$15.56	\$15.23
64 Gallon Recycling	\$14.66	\$15.23	\$14.66	\$15.56	\$15.23
32 Gallon Compost	\$7.33	\$7.62	\$7.33	\$7.78	\$7.62
Total Account Charge	\$89.30	\$92.78	\$89.30	\$94.80	\$92.80
Per Dwelling Unit Charge	\$22.33	\$23.20	\$22.33	\$23.70	\$23.20

Apartment Rates for 6 Units or Larger

16

Description of Monthly Charge	Rate Year 2023	Rate Year 2024		Rate Year 2025	
		Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Rates for 6 Unit and Larger Apartment Buildings (no more than 600 rooms)	Curent Rates				
Base Charge for Service					
Per dwelling unit	\$5.83	\$6.06	\$5.83	\$6.19	\$6.06
Volume Charges for Weekly Collection					
32-gallon bin	\$28.12	\$29.22	\$28.12	\$29.85	\$29.22
1-cubic yard bin	\$177.42	\$184.34	\$177.42	\$188.34	\$184.37

- Apartment Rates includes a landfill diversion discount.
- Diversion volume percentage equals recycling and composting volume divided by total volume.
- The landfill diversion discount is equal to the diversion volume percentage less 25% and applied to only the bin charges (base charge not eligible for diversion discount).

$(\text{Composting Volume} + \text{Recycling Volume}) / \text{Total Volume} - 25\% = \text{Diversion Discount}$

Apartment Rates for 6 Units or Larger

17

Example of Costs to Rate Payer	Rate Year 2023	Rate Year 2024		Rate Year 2025	
Description of Monthly Charge for Weekly Service	Current Rates	Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Typical Level of Service (11-Units)					
Total Base Charge	\$64.13	\$66.63	\$64.13	\$68.08	\$66.64
96 Gallon Trash	\$84.36	\$87.65	\$84.36	\$89.55	\$87.67
96 Gallon Recycling	\$84.36	\$87.65	\$84.36	\$89.55	\$87.67
32 Gallon Compost	\$28.12	\$29.22	\$28.12	\$29.85	\$29.22
<i>Total Collection Cost</i>	<i>\$260.97</i>	<i>\$271.15</i>	<i>\$260.97</i>	<i>\$277.03</i>	<i>\$271.20</i>
<i>Diversion Discount (~32%)</i>	<i>\$63.27</i>	<i>\$65.74</i>	<i>\$63.27</i>	<i>\$67.16</i>	<i>\$65.75</i>
Total Account Charge	\$197.70	\$205.41	\$197.70	\$209.87	\$205.45
Per Dwelling Unit Charge	\$19.77	\$20.54	\$19.77	\$20.99	\$20.54

Residential Rate Comparisons

Comparable Jurisdictions Weekly Residential Service	Service Square Miles	Residential Population	Default Monthly Cost of Residential Trash, Recycling, and Compost Collection (Combined)
Jurisdiction			
San Francisco	49	850,000	\$ 46.87
San Mateo City	363	102,200	\$ 23.59
Alameda City	12	78,280	\$ 37.50
Sacramento	99	525,000	\$ 31.93
Fresno	116	545,000	\$ 31.43
Los Angeles	502	3,849,000	\$ 36.32
San Diego	326	1,381,600	\$ -
San Jose	178	983,500	\$ 49.43
Long Beach	51	456,000	\$ 34.42
Santa Ana	27	309,400	\$ 22.94
Anaheim	50	345,940	\$ 26.46
Oakland	56	433,820	\$ 48.19
Burbank	17	105,400	\$ 55.03
Santa Cruz County	445	260,500	\$ 24.62
East Palo Alto	3	28,250	\$ 52.90
Castro Valley	17	66,400	\$ 32.49
Average	144	645,018	\$ 36.94

Operating Ratio/Profit Margin

19

- Recology Requests a 9.89% Profitability Ratio (91% Operating Ratio)
- ESOP Presents additional Tax Savings ~2-4% suggesting a profitability ratio of between 11.89%-13.89%
- Average Profitability Ratio Excluding Oakland and Cities under same Contract = 13.21%

Jurisdiction	Contractor	Profitability Ratio 2021
San Luis Obispo City	San Luis Garbage Company	7.53%
Sunnyvale	Specialty	8.40%
Arroyo Grande	South County Sanitary Service	8.70%
Atascadero	U.S.A Waste of California	8.70%
Grover Beach	South County Sanitary Service	8.70%
Morro Bay	Morro Bay Garbage Services, Inc.	8.70%
Pismo Beach	South County Sanitary Service	8.70%
San Luis Obispo County	South County Sanitary Service	8.70%
Stanislaus County Area #3	Multiple	10.01%
Marin County	Marin Sanitary Service	10.50%
San Rafael	Marin Sanitary Service	10.50%
San Anselmo	Marin Sanitary Service	10.50%
SBWMA	Recology	10.50%
Newark	Republic	10.72%
Pleasanton	Pleasanton Garbage Service	11.11%
Livermore	Livermore Sanitation	11.11%
Pacifica	Recology	11.11%
Alameda	ACI	11.11%
Marina	GreenWaste Recovery	11.98%
Seaside	GreenWaste Recovery	11.98%
Castro Valley	ACI	12.36%
San Ramon	ACI	12.36%
Stockton (WM)	Waste Management	14.80%
Central Contra Costa SWA	Republic	14.94%
Milpitas	Garden City Sanitation	14.94%
Daly City	Republic	15.26%
Union City	Republic	16.12%
Carmel	GreenWaste Recovery	16.60%
San Jose (Commercial)	Republic	17.25%
Stockton (REP)	Republic	17.65%
West Valley SWMA	Waste Connections	18.06%
Santa Cruz County	GreenWaste Recovery	19.23%
Cupertino	Recology	18.97%
Carlsbad	Republic	21.10%
Oakland (CWS)	CWS	35.85%

Recology Rate Cost Drivers

20

Recology's Proposal Cost Drivers	Rate Year 2022	Rate Year 2023	Rate Year 2024		Rate Year 2025	
	Costs (\$M)	Costs (\$M)	Costs (\$M)	% of Cost	Costs (\$M)	% of Cost
Sunset Scavenger/Golden Gate						
Total OR-Eligible Costs	\$200.39	\$213.77	\$223.82	100.0%	\$228.84	100.0%
Base Cost of Collections and Programs		\$200.39	\$213.77	95.5%	\$223.82	97.8%
Program Enhancements			\$3.48	1.6%	\$3.25	
Capital Expenditures Changes					\$0.17	0.1%
Non-Program Related Cost Changes						
<i>Sustainable Crushing Closure</i>			-\$4.02	-1.8%		
<i>Labor Enhancements</i>		\$1.13	\$2.81	1.3%		
<i>Other Costs</i>			\$0.96	0.4%		
Economic/Business Cost Changes		\$12.24	\$6.83	3.1%	\$1.61	0.7%
Recology San Francisco						
OR-Eligible Costs	\$117.95	\$124.99	\$125.52	100.0%	\$125.78	100.0%
Base Cost of Collections and Programs		\$117.95	\$124.99	99.6%	\$125.52	99.8%
Program Enhancements			\$1.50	1.2%		
Capital Expenditure Changes					\$0.22	0.2%
Non-Program Related Cost Changes						
<i>Sustainable Crushing Closure</i>			-\$4.54	-3.6%		
<i>Labor Enhancements/Backfills</i>		\$1.28				
<i>Orther Costs</i>			\$1.17	0.9%		
Economic/Business Cost Changes		\$5.77	\$2.40	1.9%	\$0.04	0.0%

- Recology San Francisco represents costs of the Tipping Fee.
- Major Revenue Changes:
 - Assumes 2% tonnage growth each year.
 - \$5M in additional revenue generated from contamination fees beginning in RY 2024.
- Assumes the use of \$4.25M of remaining settlement dollars in RY 2024.
- Includes Zero Waste Incentive Account and assumption of returning all tiers to ratepayers in RY2024 and two tiers in RY 2025.

Refuse Rate Administrator Changes

- Reduction of \$14.6M in expenditures in RY2024 and \$8.1M in RY2025.
- Reduction of \$5.0M in revenue in both RY2024 and RY2025.
- The impact of the account changes further reduce costs by \$5.2M and \$5.7M in RY2024 and RY2025 respectively.
- The individual marginal impacts are not additive, since some changes impact others, and some costs flow through the tipping fee before impacting collections rates.
- The net impact is a reduction to rates of \$15.97M in RY2024 and \$8.39M in RY2025

Key Items Impacting Rates	Rate Year 2024		Rate Year 2025	
	Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Expenditures				
Impound Account				
Impound Account	\$23.85	\$24.22	\$23.85	\$24.60
Program Enhancements				
Contamination Enhancement	\$0.98	\$0.00	\$1.01	\$0.00
Capital Expenditures Changes				
Organics Pre-Processing	\$0.00	\$0.18	\$0.21	\$0.18
Non-Program Related Cost Changes				
Trash processing Pilot	\$0.50	\$0.00	\$0.00	\$0.00
Seismic Study	\$0.50	\$0.00	\$0.50	\$0.00
Pension 5-Year	\$23.53	\$11.30	\$17.60	\$11.41
Corporate Allocations (5%)	\$15.21	\$14.43	\$15.68	\$14.87
Economic/Business Cost Changes				
Economic/Business Cost Factors	\$6.83	\$6.67	\$1.53	\$1.22
Total Expenditure	\$71.41	\$56.79	\$60.37	\$52.28
Revenue				
Program Enhancements				
Contamination Enhancement	\$5.00	\$0.00	\$5.00	\$0.00
Total Revenue	\$5.00	\$0.00	\$5.00	\$0.00
Account Changes				
Deposits				
Zero Waste Incentive Account	\$8.25	\$0.00	\$8.38	\$0.00
Programmatic Reserve	\$0.00	\$0.78	\$0.00	\$0.81
Uses				
Impound Account Balance				
Trash Processing Pilot	\$0.00	-\$0.50	\$0.00	\$0.00
Seismic Study	\$0.00	-\$0.50	\$0.00	-\$0.50
Refuse Rate Administrator Office	\$0.00	-\$0.86	\$0.00	-\$1.08
Zero Waste Incentive Addback	\$8.49	\$8.49	\$4.12	\$0.00
Rate Stabilization Fund 2022	\$4.25	\$2.02	\$0.00	\$2.23

Details of Proposed Items with Rate Impacts

Impound Account Annual Programmatic Summary

Impound Account Annual Sources and Uses	Rate Year 2024			Rate Year 2025		
	Recology Proposal	Department Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Department Proposal	Refuse Rate Administrator Proposal
Environment Department		\$14.7	\$12.2		\$15.1	\$12.6
Department of Public Works		\$9.5	\$12.0		\$9.5	\$12.0
Total	\$23.8	\$24.2	\$24.2	\$23.8	\$24.6	\$24.6

- Refuse Rates have funded the Impound Account for over two decades for programs at Public Works and the Environment Department.
- Recology’s proposal makes no changes to the proposed budget from the prior rate order. However, departments are requesting budgets that reflect cost increases to departments as well as one enhancement from the Department of Public Works for an additional Trash Can Manager (1824) position.
- Prior to the next rate cycle, the Refuse Rates Administrator recommends completion of a study by a refuse rate consultant that includes how neighboring jurisdictions are providing services along with associated Proposition 218 nexus.
- The Refuse Rates Administrator is recommending shifting approximately \$2.5 million in uses of funding from the Environment Department to Public Works programs. The use of the Impound Account funds would be for Refuse, Recycling, and Composting-related programs including outreach for Zero Waste, public refuse collection deposited in public receptacles, litter and debris collection, and curbside mechanized Street Sweeping.

Impound Account: Environment Department

Environment Department Program Areas	Full-Time Equivalent		RY 2024		RY 2025	
	Environment Department Proposal	Refuse Rate Administrator Proposal	Environment Department Proposal	Refuse Rate Administrator Proposal	Environment Department Proposal	Refuse Rate Administrator Proposal
Zero Waste	12.75	12.75	\$4.22	\$4.22	\$4.23	\$4.23
Toxics	10.86	10.86	\$2.78	\$2.78	\$2.86	\$2.86
Outreach and Communications	24.29	16.90	\$6.04	\$4.33	\$6.19	\$4.42
Green Building	2.50	1.74	\$0.73	\$0.54	\$0.75	\$0.55
Climate	2.61	1.37	\$0.61	\$0.33	\$0.63	\$0.34
Environmental Justice	2.89	1.81	\$0.70	\$0.43	\$0.72	\$0.44
Total	55.90	45.43	\$15.08	\$12.63	\$15.38	\$12.85

- **Communications and Outreach:** Removed outreach and communications that is not specific to refuse and serves department goals more broadly. Removed 7.39 FTE from rates (30% reduction).
- **Green Building:** This team works to ensure all new and existing buildings are environmentally responsible and progressing towards zero waste and zero emissions. Removed non-refuse related activities such as data analysis about building use and carbon emissions. Removed 0.76 FTE from rates (30% reduction).
- **Climate:** Climate program staff serve the department broadly in monitoring and implementing the City’s Climate Action Plan. Removed 1.24 FTE from rates (47% reduction).
- **Environmental Justice:** This team supports Environment Department’s Racial Equity Initiative, which includes increasing recycling and composting and bulky pick -up program participation at affordable housing and public housing sites and reducing illegal dumping impacting neighborhoods. Removed 1.08 FTE from rates (37% reduction).

Impound Account: Department of Public Works

Department of Public Works Programs	Rate Year 2024		Rate Year 2025	
	Public Works Proposal	Refuse Rate Administrator Proposal	Public Works Proposal	Refuse Rate Administrator Proposal
Outreach and Enforcement (OnE) Team	\$2.77	\$2.77	\$2.77	\$2.77
Street Cleaning - Litter Patrol	\$3.95	\$3.95	\$3.95	\$3.95
Trash Can Maintenance	\$0.94	\$0.94	\$0.94	\$0.94
Trash Can Cleaning	\$1.68	\$1.68	\$1.68	\$1.68
Trash Can Manager	\$0.17	\$0.17	\$0.17	\$0.17
Mechanical Street Sweeping		\$2.45		\$2.53
Total	\$9.51	\$11.96	\$9.51	\$12.04

- Mechanical street sweeping is being included as part of this budget. Street sweeping is a mitigation measure that helps to ensure that public trash, litter, and other debris like plastic bags don't clog the storm drains and stays out of the City's combined sanitary and stormwater sewer system.
- In addition to the proposed Impound Account budget, Public Works is requesting that previously allocated unspent Impound Account funding be used to purchase new public receptacles.
 - The total cost is \$15 million, which Public Works is request for use in Rate year 2024.
 - Given the 3,300 trash cans and anticipated time to install, the Refuse Rate Administrator proposal includes the \$15M not-to-exceed contract authority, but recommends consideration of purchase order over three years, which would allow the City to throttle spend-down if longer is needed.

Impound Account Balance

26

- As of the Nine-Month Report, the Solid Waste Fund Impound Account is anticipated to have \$2.4 million in expenditure savings, the fund is projected to have a year-end balance of \$8.5 million.
- This is in addition to \$15 million in unencumbered expenditure budget carried forward from prior fiscal years that Department of Public Works has budgeted to use for the replacement of the public trash cans.
- The Refuse Rate Administrator estimates total available balances of approximately \$23.5 million.
- For the next two years, as proposed in the budget, the Refuse Rates Administration work is funded using a portion of the accumulated unappropriated fund balance. (\$857k in FY23-24 and \$1.08M FY24-25)
- In addition, the Refuse Rate Administrator is proposing use of Impound Account Balance for the proposed trash processing pilot and the seismic study (\$1 million in Rate Year 2024 and \$500k in Rate Year 2025)
- Consideration of both available unappropriated fund balance as well as unspent unencumbered appropriation balances can be a source for one-time or episodic rate studies, consultant work, Refuse Rate Administration costs, etc.

Program Enhancement Summary

Program Enhancements	Rate Year 2024		Rate Year 2025	
	Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Expenditure				
Abandoned Materials	\$0.97	\$0.97	\$0.97	\$0.97
Public Receptacles	\$0.89	\$0.89	\$0.89	\$0.89
Weekend Clean-Up Events	\$0.64	\$0.64	\$0.46	\$0.46
Contamination Enhancement	\$0.98	\$0.00	\$1.01	\$0.00
Total Expenditures	\$3.48	\$2.50	\$3.33	\$2.32
Revenue				
Contamination Enhancement Contamination Fee	\$5.00	\$0.00	\$5.00	\$0.00
Total Revenues	\$5.00	\$0.00	\$5.00	\$0.00
Total	\$1.53	-\$2.50	\$1.68	-\$2.32

- Excluding its 3 bin collections operations, Recology also has 26 programs included in the proposed rates but is seeking changes to only four programs.
- Refuse Rate Administrator, Recology, and Public Works are aligned in the need for Abandoned Material and Public Receptacle enhancements. Work on Service Level Agreements continues.
- Environment Department would like to see larger diversion component to Weekend Clean-Up Events.
- Contamination enhancements need further evidence of efficacy for contamination reduction outcomes and revenue generation. In addition, current contamination protocols need to be reviewed.

Program Enhancement: Weekend Cleanup Events

28

- Weekend Cleanup Events are District events intended to support proper disposal and reduce material left in the public right of way. That is implemented in conjunction with Public Works. The program was paused during the pandemic.
- The proposed program currently only offers one bin with no re-use component. The Environment Department contends that this works against the City's Zero Waste Goal and Climate Goal.
- The Environment Department and its Commission would support an expanded program to include recycling and composting bins and a reuse component.
- Recology estimates that the expansion of the program to include 3-bins and a reuse component would more than double the annual cost, increasing the amount from \$608k to \$1.3 million.
- The Refuse Rate Administrator's proposal does not make any changes to Recology's proposal for this enhancement.

Program Enhancement: Contamination

Contamination Enhancement	Rate Year 2024		Rate Year 2025	
	Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Expenditure				
Waste Zero Outreach	\$0.45	\$0.00	\$0.46	\$0.00
Contamination Outreach	\$0.23	\$0.00	\$0.23	\$0.00
Onboard Cameras	\$0.31	\$0.00	\$0.32	\$0.00
Total Expenditures	\$0.98	\$0.00	\$1.01	\$0.00
Revenue				
Contamination Fee	\$5.00	\$0.00	\$5.00	\$0.00
Total Revenues	\$5.00	\$0.00	\$5.00	\$0.00
Total	\$4.02	\$0.00	\$3.99	\$0.00

- Waste Zero Outreach: conducts site visits, presentations, and service recommendations to maximize diversion. Currently 6 FTE, enhancement would add 2 additional FTE.
- Contamination Outreach: Outreach and education, on-board camera and 3rd eye subscription. This would add 1 additional FTE.
- Contamination Fee: Impact of the above outreach is estimated to generated \$5 million in additional contamination fees.

- No data or information on efficacy of existing outreach programs or enhancements.
- HF&H raised concerns about the efficacy of cameras, citing around consistent clear photos and false positives in other jurisdictions.
- Unknown impact of pedestrian traffic on contamination.
- Unknown customer response to contamination mitigation efforts or enhancements. Do this change behavior?
- Insufficient backup for contamination fee revenue projection.
- Current contamination protocols may not be followed.
- Before committing to any enhancements, Refuse Rates Administrator recommends a review of the impacts of outreach and the cameras, the impacts of public contamination of ratepayer bins, and a review of current protocols and compliance with the agreed upon protocols.

	New FTE Request	Total FTE Requested	Refuse Rate Administrator Proposal
Department of Public Works	0	10	10
Environment Department	0	24.29	16.9
Recology	3	13	10
Total Outreach FTE	3	47.29	36.9

- Public Works:** OnE Team is guided by 311 service request response. Educates public on acceptable waste disposal methods and related code compliance through door-to-door outreach efforts. Repeat violators held accountable through administrative citation process.
- Environment Department:** Outreach is varied. Refuse related outreach examples include Reuse Campaign, Food Waste Reduction Campaign, and People in Life Transitions Campaign which helps reduce toxics in homes by encouraging use of Household Hazardous Waste pickup program.
- Recology:** Employees 4 diversion auditors to identify contaminated waste and validate contamination charges to customers. Waste Zero team currently includes 6 specialists who provide education for ratepayers who have contaminated waste.

Capital Expenditure: Organics Pre-Processing

32

Capital Expenditure	Rate Year 2024		Rate Year 2025	
	Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Organics Pre-Processing				
Proposed System	\$0.00	\$0.00	\$0.21	\$0.00
Alternative System	\$0.00	\$0.18	\$0.00	\$0.18
Total	\$0.00	\$0.18	\$0.21	\$0.18

- Recology is looking to reduce the amount of non-compostable tonnage in its organics collections (currently, 24% is non-compostable).
- Recology's proposal is to invest in a \$3.2 million system on a 10-year lease. This system would not be implemented until later in Rate Year 2025, and would cost approximately \$205k in the first year, and \$410k per year in future rate years.
- Given the uncertainty of the new technology and the immediate need for a solution, Recology has proposed using screens as an interim solution, which could be implemented more quickly at a lower annual cost (estimated around \$180k per year).
- During the interim, a study will be conducted to determine the appropriate long-term solution for organics pre-processing.

Other Changes Summary

Other Cost Changes	Rate Year 2024		Rate Year 2025	
	Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Sustainable Crushing	-\$4.02	-\$4.02	\$0.00	\$0.00
Labor Enhancements				
Safe Service	\$0.74	\$0.74	\$0.76	\$0.76
Other Labor Changes	\$1.68	\$1.68	\$1.73	\$1.73
Other Costs				
Trash Processing	\$0.50	\$0.00	\$0.00	\$0.00
Seismic Safety Study	\$0.50	\$0.00	\$0.50	\$0.00
Pension Costs	\$23.53	\$11.30	\$17.60	\$11.41
Corporate Allocations	\$15.21	\$14.43	\$15.68	\$14.87
Total	\$38.14	\$24.12	\$36.27	\$28.77
Account Use				
Impound Account Balance				
Trash Processing	\$0.00	-\$0.50	\$0.00	\$0.00
Seismic Safety Study	\$0.00	-\$0.50	\$0.00	-\$0.50

- Refuse Rate Administrator agrees with impact of Sustainable Crushing closure.
- Refuse Rate Administrator proposal maintains the Safe Service enhancement for Tenderloin pickup.
- Other Labor Changes excludes any FTE from Program Enhancements
- Trash Processing and Seismic Safety study will be moved out of the rates and funding will come from unspent Impound Account Balance.

Other Changes: Other Labor Changes

34

New Labor Requests	Rate Year 2023 New FTE Requested	Rate Year 2024 New FTE Requested
Safe Service Drivers		2
Operations Supervisor		3
Cardboard Collections Drivers		2
Maintenance Supervisor	1	
Operations Manager - Transportation	1	
Operations Supervisor	2	
Relief Drivers	2	
Rate analysts	2	
Senior HR Generalist	1	
Payroll Coordinator	1	
Liens Collection	1	
Total	11	7

- Not included in this line-item are labor change requests to Program Enhancements covered in previous slides (i.e. Abandoned Materials, Public Receptacles Pick-Up, and Waste Zero specialists).
- No additional new FTE were requested in Rate Year 2025.
- The new FTE requests are mostly based on adding capacity to address additional needs due to the new rate-setting process or impacts that are likely temporary (e.g. reduction of recycling prices leading to the need for additional cardboard pickup). For this reason, the Refuse Rate Administrator is recommending that these position be hired as project-based to be re-evaluated in the next cycle.
- In addition, the Refuse Rate Administrator will monitor the driver to supervisor/manager ratios.

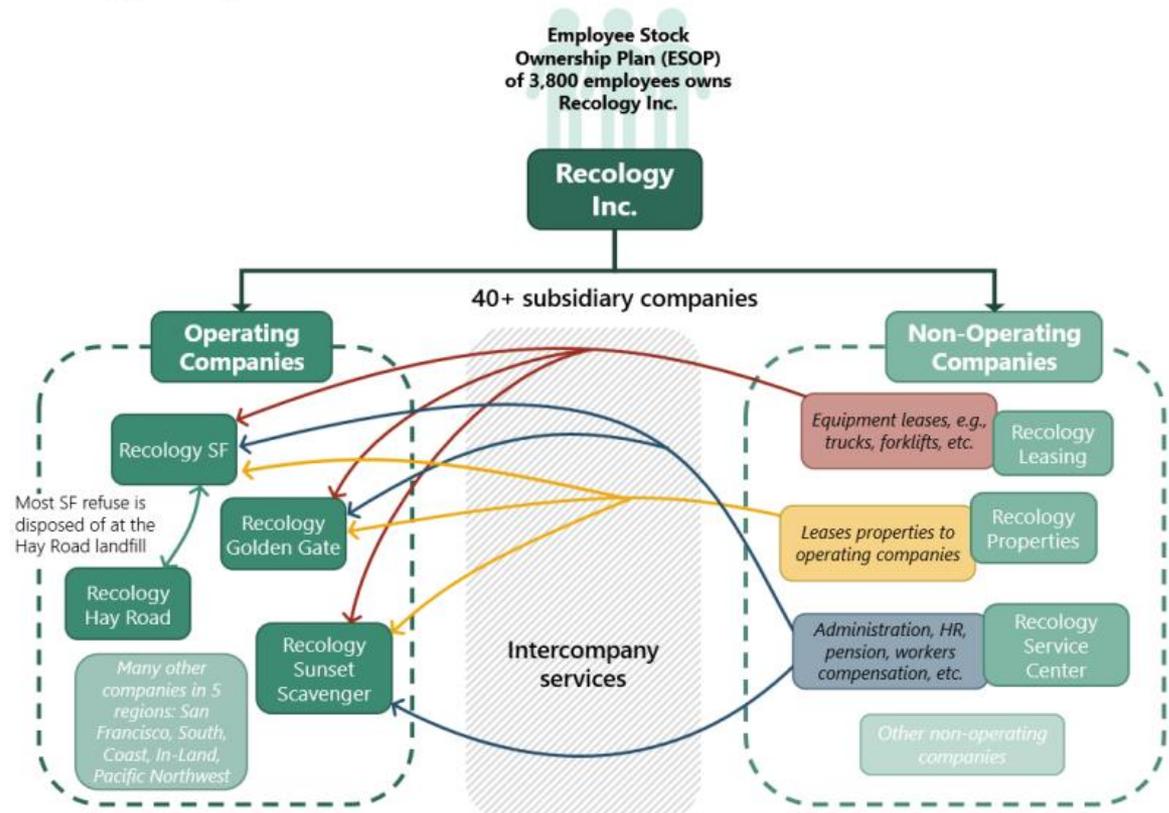
Other Changes: Pension Costs

35

- Recology's proposal is to set pension costs at level where it would be fully funded in RY 2025 (around July 2025).
- Refuse Rate Administrator is proposing capping annual costs where the pension could be fully funded in 5 years. By smoothing costs out over time, we can lower rates in RY2024 and 2025, while also ensuring less volatility in rates in future years.
- The RRA proposal limits any cost allocations above any beyond those included in the rate order.
- Reporting on pension actuarial valuation and market valuation will be reported quarterly.
- This proposal would reduce pension costs from approximately \$23.5 million to \$11.3 million in Rate Year 2024, and from \$17.6 million to \$11.4 million in Rate Year 2025.
- The estimated marginal impact of this cost change is -3.55% change in Rate Year 2024 and a 1.71% change in Rate Year 2025 for a net change of -1.8% over the two rate years.

Corporate Allocations are costs to the three Recology subsidiaries from Recology's Corporate entity, Recology Incorporated and non-operating companies. These costs could include legal, financial, administrative, human resource support, etc. that are allocated to its subsidiaries.

Recology Corporate Structure



- Based on the Controller's Public Integrity Reviews, Refuse Rate Administrator believes that Corporate Allocations are high.
- The allocation methodology being used by Recology is revenue-based, which the Refuse Rate Administrator believes is not to the benefit of San Francisco ratepayers.
- San Francisco rates tend to be higher than other jurisdictions and the higher cost of living in San Francisco should not be factor in the allocation.
- The Refuse Rate Administrator has requested a review of impacts of other allocation methods such as tonnage-based allocation.
- Refuse Rate Administrator is recommending a 5% cut in Corporate Allocations at this time. As well as a review before the next rate cycle of to evaluate expense eligibility, confirm that no profit is being earned, and to assess other allocation methods.
- In addition, Refuse Rate Administrator is recommending establishing a fund with the 5% Corporate Allocation amount as the basis for a Programmatic Reserve for use to cover City requests outside the scope of agreed upon service level agreements. The net effect of the two changes would result in no impact to rates.

- Recology's initial proposal used inflation factors based on the Controller's Five-Year Financial Plan, published in December 2022, which assumed increases of 3.68% and 3.05% for Rate Years 2024 and 2025 respectively.
- Controller's Office updated its inflation forecast March, which projects slightly lower inflation levels. Refuse Rate Administrator proposes using the updated forecast. The updated forecast assumes increases of 3.44% and 2.89% for the same years.
- The adjustment is estimated to have marginal impact of reducing costs to rates by \$166k and \$307k for Rate Years 2024 and 2025 respectively.
- In addition, the Refuse Rate Administrator reviewed other Economic/Business Cost Factors, but recommended no change from current forecast:
 - Recycling Prices
 - Fuel Prices
 - Economic Growth Assumption

Account Changes Summary

39

Accounts	Rate Year 2024		Rate Year 2025	
	Recology Proposal	Refuse Rate Administrator Proposal	Recology Proposal	Refuse Rate Administrator Proposal
Deposits				
Zero Waste Incentive Account	\$8.25	\$0.00	\$8.38	\$0.00
Programmatic Reserve Fund	\$0.00	\$0.78	\$0.00	\$0.81
Total	\$8.25	\$0.78	\$8.38	\$0.81
Use				
Rate Stabilization Fund 2022	\$4.25	\$2.02	\$0.00	\$2.23
Zero Waste Incentive Prior Year Addback	\$8.49	\$8.49	\$4.12	\$0.00
Total	\$12.74	\$10.50	\$4.12	\$2.23
Estimated Impact to Net Revenue	\$4.49	\$9.72	-\$4.26	\$1.42

- Rate Stabilization Fund 2022 includes remaining funds from the settlement returning funds to ratepayers. Refuse Rate Administrator is recommending spreading the funds across both rates years.
- Programmatic Reserve Fund is equal to the amount of the Corporate Allocations cut. This fund can be used for City requests outside of the Service Level Agreements. The impact of the deposit to the fund is an increase in rates, which would offset the 5% rection in Corporate Allocation costs. The net impact would be no change to the rates.

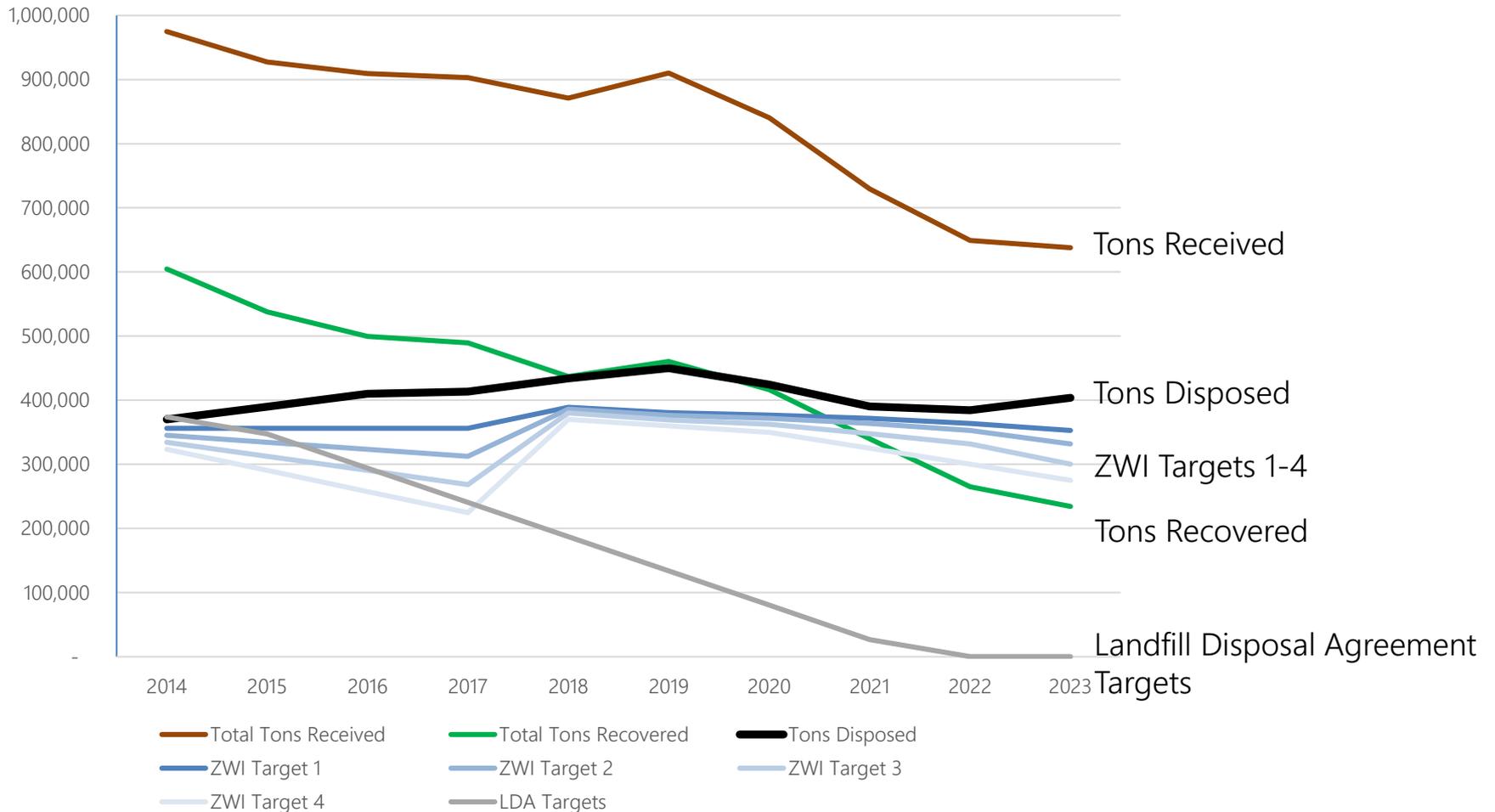
Zero Waste Incentive Account (ZWI)

40

- Zero Waste Incentive Account (ZWI) is a financial incentive account that Recology could draw down on if certain targets are met. Meeting all targets would equal an additional 2% profit for Recology.
- ZWI would contribute \$8.25M to refuse rates costs in RY24 and \$8.38M in RY25. When Recology does not meet the targets, funds are used to lower ratepayer rates in subsequent years. In Recology's request, assumes addbacks of \$8.49M and \$4.12M for the same years.
- Unachieved funds from the account have been used in the past to support infrastructure spending, which were approved outside of the rate process.
- Recology has not met the ZWI targets for several years. Recology currently has a recovery rate of 39%, down from a peak of 62% in 2014.

Zero Waste Incentive Account (ZWI)

Landfill Tonnage Vs. ZWI Targets Over 10 Years



Zero Waste Incentive Account (ZWI)

42

- ZWI has not correlated with reductions in landfill tonnage or improvement to recovery rates.
- Refuse Rate Administrator is proposing a 2-year suspension of the incentive account to look at other models that may be more effective and could reduce costs to rate payers.
 - Reduce cost to ratepayers
 - Increase transparency in spending
 - Consider alternatives with either retrospective incentives/penalties
- Other new diversion investments are part of the rate proposal. These include a trash processing pilot and investments in organics pre-processing.

Details of Proposed Items without Rate Impacts

- Balancing Account
- Cost-of-Living Adjustment
- Service Level Agreements
- Reporting Requirements
- Future Work

- Under the December 2022 Settlement Agreement, a \$25 million balancing account was created.
 - The notional balance would be increased based on profits earned or losses incurred in Rate Year 2023 using the 0.91% OR on eligible costs and applying a 50% adjustment.
 - Any remaining balance would be applied to offset rate increase in equal amounts between RY25-29.
- Recology is proposing a new balancing account to be based on profits earned and losses incurred for RY 2024 and 2025 with a 100% adjustment.
- The Refuse Rate Administrator recommending a balancing account based on a 50% adjustment. A 100% adjustment would reduce the incentive for Recology to control costs. In addition, 100% adjustment would create more volatility in rate adjustments than 50% adjustment.

Refuse Rate Administrator Proposal

- **Purpose:** Serves Ratepayers by ensuring any unanticipated savings or surplus revenues are used to offset their subsequent years costs, and that unanticipated expenditures or revenue shortfalls are smoothed in over time to mitigate rate shocks.
- **Adjustment:**
 - Below 91% OR: 50% of the amount below will be taken from the balancing account and used to cover any approved shortfalls or eligible costs previously reviewed and covered by the approved Rate Order. The amount may result in rate changes over a multiple year subsequent rate order, not to exceed five years.
 - If Above 91%: 50% of the amount will result in reduction to the Rate Order Balancing Account and any Balancing Account amounts projected or determined will be considered in the subsequent Rate Request of the Provider and may result in rate changes over a multiple year subsequent rate order, not to exceed five years.
- **Balancing Account Use Cap:** Not to exceed +/- 2.5% of Net Revenue Subject to Rate setting for any subsequent year.

Balancing Account

47

	Rate Year 2024	Rate Year 2025	Rate year 2026	Rate Year 2027
At Time of Rate Setting				
Authorized Operating Ratio	91.00%	91.00%	91.00%	91.00%
Allowable Operating Ratio Profit	9.89%	9.89%	9.89%	9.89%
Rate Order Adjustment to Meet Authorized Profit			0.98%	1.97%
BA Adjustment From Prior Years			\$ (3,595,565)	\$ 2,816,747
BA Adjustment Impact to Rates			-0.94%	0.72%
Total Rate Adjustment			0.04%	2.69%
Adjusted Net Profit			8.95%	10.61%
After Rate Year Amount Finalized				
Actual Profit before BA Adjustment	13.48%	7.19%		
Difference from Target	3.59%	-2.70%		
Excess / (Short)	\$ 7,191,130	\$ (5,633,494)		
50% Adjustment (Reflected 2 Years Later)	\$ (3,595,565)	\$ 2,816,747		
Balancing Account Summary				
Starting Balance (a)			\$ (3,595,565)	\$ 2,816,747
Amount Used to Adjust Rates (b)			\$ (3,595,565)	\$ 2,816,747
Ending Balance (a-b)			\$ -	\$ -

- **Timing:** The adjustment for Rate Year 2024 will happen during Rate Year 2026 and the adjustment for Rate Year 2025 will happen in Rate Year 2027
- **Scenario:** RY 2024 is determined to have excess profit and RY 2025 is determined to have a shortfall from the authorized profit.
- **Outcome:**
 - Entirety of the balancing account is used to adjust rates down in Rate Year 2026 by 50% of the excess in Rate Year 2024.
 - Entirety of balancing account is used to adjust rates up in Rate Year 2027 by 50% of the shortfall in Rate Year 2025.

Balancing Account

48

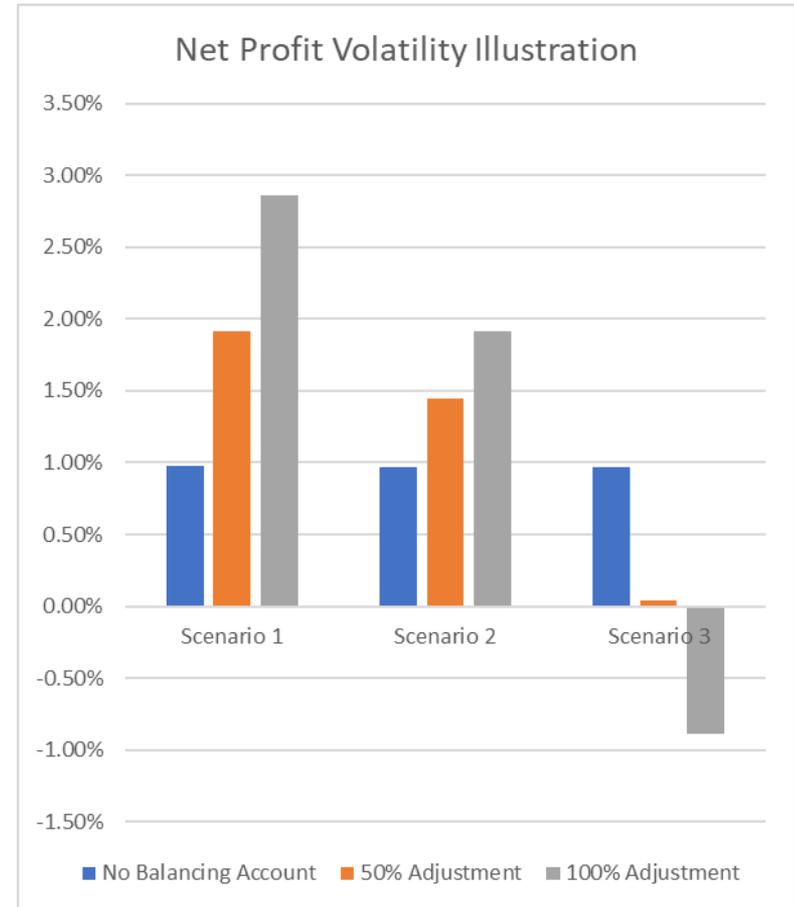
	Rate Year 2024	Rate Year 2025	Rate year 2026	Rate Year 2027
At Time of Rate Setting				
Authorized Operating Ratio	91.00%	91.00%	91.00%	91.00%
Allowable Operating Ratio Profit	9.89%	9.89%	9.89%	9.89%
Rate Order Adjustment to Meet Authorized Profit			0.98%	1.97%
BA Adjustment From Prior Years			\$ (1,797,783)	\$ 1,018,964
BA Adjustment Impact to Rates			-0.47%	0.26%
Total Rate Adjustment			0.51%	2.23%
Adjusted Net Profit			9.42%	10.15%
After Rate Year Amount Finalized				
Actual Profit before BA Adjustment	13.48%	7.19%		
Difference from Target	3.59%	-2.70%		
Excess / (Short)	\$ 7,191,130	\$ (5,633,494)		
50% Adjustment (Reflected 2 Years Later)	\$ (3,595,565)	\$ 2,816,747		
Balancing Account Summary				
Starting Balance (a)			\$ (3,595,565)	\$ 1,018,964
Amount Used to Adjust Rates (b)			\$ (1,797,783)	\$ 1,018,964
Ending Balance (a-b)			\$ (1,797,783)	\$ -

- **Scenario:** RY 2024 is determined to have excess profit and RY 2025 is determined to have a shortfall from the authorized profit. Use of balance to adjust rates is spread across Rate Years 2026 and 2027.
- **Outcome:**
 - Starting balance in Balancing Account is equal to -50% of excess. Half is used to adjust rates in RY2026, leaving the remainder in the Balancing Account.
 - 50% of excess in RY2025 is included to the Balancing Account. Net of prior year remainder, the starting balance becomes \$1.01M. The entirety of the amount is used to offset the increase determined by the rate order to lower the upward rate adjustment.

Balancing Account

49

- **Scenario 1:** Shortfall of 3.59% from authorized profit in Rate Year 2024. Upward adjustment determined during rate-setting for Rate Year 2026
 - 50% adjustment increases the Rate Year 2026 rate adjustment from .98% to 1.92%
 - 100% adjustment further increases the adjustment to 2.86%
- **Scenario 2:** Same as Scenario 1, except the Rate Order for Rate Year 2026 spreads the adjustment over two years to show how costs can be smoothed out over time.
 - 50% adjustment increases the Rate Year 2026 rate adjustment from .98% to 1.45%
 - 100% adjustment further increases the adjustment to 1.92%
- **Scenario 3:** Excess of 3.59% from authorized profit in Rate Year 2024. Upward adjustment determined during rate-setting for Rate Year 2026.
 - 50% adjustment reduces the Rate Year 2026 rate adjustment from .98% to .04%
 - 100% adjustment further reduces it to a reduction in rates of -0.89%



Cost-of-Living Adjustment

50

- In the Refuse Rate Administrator's proposed rates, inflationary increases, including negotiated labor contract costs and project fuel and recycling prices are accounted for in both rate years.
- The previous rate order includes an automatic COLA escalator, which Recology received January 1, 2023, which amounted to an 8.86% increase in collection rates and a 5.96% increase to the tipping fee. Recology's proposal includes this same escalator, which would take effect in Rate Year 2026 if no subsequent rate order is approved.
- Refuse Rate Administrator is recommending no automatic COLA adjustment after Rate Year 2025 and anticipates a planned recommended Rate Order to be heard by the Refuse Rate Board before the next rate cycle. The Refuse Rate Administrator believes any rate adjustment should be done through the rate process, which would provide more transparency.

- **Abandoned Materials** – Requires pickup within 4 hours M-F workday, or 8 hours on weekends.
 - Service level agreement wouldn't apply beyond 310 notices/day or 113,282 notices/year in RY24, then increasing 2% in RY25.
 - Proactive Bayview, Mission, and Chinatown pickup will continue and Bayview will increase service.
 - New Zone K to focus better on downtown.
 - Abandoned cardboard collection in Mission and Chinatown to continue.
- **Public Receptacles** – Dedicated collection routes at hours agreed upon by Recology and Public Works, not to exceed 8.5 hour period. In addition, during hours of operation on dedicated routes, 2 hour pickup on notice of full receptacle.
 - Service level agreement wouldn't apply beyond 120 notices/day or 43,800 notices/year in RY24, increasing 2% in RY25.
 - Repair of receptacles to continue.
- **Disposal of Street Sweeping and Abandoned Waste** – All Public Works trucks will qualify.

- Annual Audited Financial Statements: Consolidated statements that shows elimination of ineligible costs.
- Quarterly and Annual Rate Reports: Expanding reporting requirements to include reporting on balancing account and inclusion of Agreed Upon Procedures to link audits to the quarterly reports.
- Refuse Rate administrator is documenting other reporting requirements from the previous rate cycle including Landfill Agreement requirements as well as agreed upon reporting to the Environment Department.
- In addition to these reporting requirements, the Refuse Rate Administrator will be requesting additional reporting to allow for analysis of operational efficiency such as routes and lifts data as well as reporting that allows for analysis of customer service levels.

Contracted Rate Review and Cost Study Work

- Capital Infrastructure Needs (\$50-\$150k per task)
 - Recycling Processing
 - Organics Pre-Processing
 - Landfill (waste-to-energy/gas capture)
 - Trash Processing
- End-to-end Contamination Mitigation/Diversion Study (\$100k-\$500k)
 - Waste Characterization
 - Market Conditions for Recyclables and Compost
- Cost Allocation: Residential/Commercial Cost Allocation Study (\$150-\$200k)
- Vehicle Licensing and Route Permitting Review (\$100-\$300k)
- Performance Standards Process (\$50-\$150k)
- Consulting Support for Next Rate Cycle (\$100-\$300k)
 - Nexus Review

Internal Studies

- City Can Pickup and New Trash Can Evaluation (DPW)
- Evaluating City Roles (RRA)
- Evaluating Reporting Requirements (RRA)